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Another Look At The Bilateral Trade Imbalance

In a report released October 29, C. Fred Bergsten and William Cline of the Institute for International Economics cite macroeconomic policies as the major cause of the increasing trade imbalance between Japan and the United States. The study, The United States-Japan Economic Problem, states that "the rise in the U.S.-Japanese trade deficit from 1980 to 1984 can be fully explained by changes in the exchange rate and rates of economic growth." The

It is unclear whether the administration will back legislation already introduced by Sen. Charles Mathias (R, Md.) or generate its own bill. In any event, the development should please Japanese business groups, which view the worldwide unitary method as an impediment to their growing U.S. presence at best and a serious thorn in bilateral relations at worst.

Michael W. Chinworth

Record Japanese Current Account Surplus In FY 1985's First Half

Topping the previous all-time high recorded in FY 1984's first half, Japan's current account set a record $26.6 billion surplus during the first half of the current fiscal year. The trade balance also posted a $29.3 billion semiannual record surplus.

Japan's Selected Foreign Balances

(in millions of dollars)

	FY 1982	FY 1983	FY 1984	April-September 1984	April-September 1985
Current Account	$9,135	$24,232	$37,015	$18,661	$26,597*
Trade Balance	20,141	34,546	45,601	23,148	29,256*
Exports	135,993	150,740	167,858	85,304	86,678*
Imports	115,852	116,194	122,257	62,156	57,422*

*Preliminary

Source: Bank of Japan

Exports climbed to $86.7 billion, 1.6 percent above the previous high recorded in the April-September 1984 half. The 7.2 percent increase in exports to the United States was fueled by increased shipments of cars, trucks and buses, which rose to 1.7 million units, a 300,000-unit increase from the same period a year earlier. At the same time, increased shipments of electronic goods and cars contributed to a doubling of Japan's exports to China. Imports fell 7.6 percent from the same period a year ago, reflecting reduced imports of crude oil and other primary products.

The announcement of Japan's record current account surplus coincided with a sharp rise in the value of the yen from Y214.9=$1.00 on October 24 to Y207.8=$1.00 on November 5, its highest level since March 1981. Traders attributed the strengthening of the yen to higher interest rates in Japan and the announcement of the record U.S. September trade deficit of $15.5 billion. The Bank of Japan is believed to have intervened several times on a small scale last week. The rise in the yen was also encouraged by Bank of Japan governor Satoshi Sumita and Finance Minister Noboru Takeshita, who told the Diet that the yen should appreciate further against the dollar.

In another move designed to strengthen the yen, the Japan Development Bank, a government financial institution, announced that it will raise $200 million by issuing bonds in New York this month. This will be the largest amount of government-guaranteed bonds denominated in dollars ever issued by Japan abroad. The proceeds will be converted into yen and will thus help lower the value of the dollar. When the bank issued $100 million worth of bonds on two occasions last year, the yen appreciated against the dollar.

Randall S. Jones

The Minebea Saga: The Hunter Becomes The Hunted

The most popular drama among businessmen in Japan these days is not on television but on the floor of the Tokyo Stock Exchange. Minebea Co., Ltd., an acquisition-minded Japanese manufacturer of miniature ball bearings, has had the tables turned on it as two foreign companies declared their intention to pursue a hostile takeover bid. The drama confronts the Japanese financial community with a painful reality: If Japanese financial institutions want access to international markets, they have to play by international rules. This point will be brought home with even greater force after foreign securities firms join the Tokyo Stock Exchange as part of a planned membership expansion. Most observers agree that a major change in Japanese attitudes toward corporate mergers and takeovers is in the offing.

Minebea has been somewhat of a dark horse among Japanese companies, primarily because of its philosophy of expansion by takeover. This practice, considered unorthodox in Japan, was tolerated by the business community because the Nagano-based firm only pursued foreign firms or companies facing financial difficulties. An abrupt change in this pattern took place in late August when Minebea sought to buy out a healthy company, Sankyo Seiki Manufacturing Co., Ltd., and was rejected. Minebea's persistance led to a situation unprecedented in postwar history: a hostile takeover bid (see JEI Report No. 34B, September 6, 1985).

In a turn of events that is commonplace in the United States, Minebea then found itself the target of a "greenmail" assault and subsequent takeover tender by two foreign investment firms. Trafalgar Holdings Ltd., a Los Angeles-based holding company, and Glen International Financial Services Co. of Britain announced that they had acquired the rights to approximately 30 percent of Minebea's outstanding shares just as Minebea was announcing its intentions toward Sankyo Seiki. The two firms immediately offered to sell their warrants and convertible bonds back to Minebea, but at a price equivalent to twice the current value of Minebea's shares. Minebea's management disdained this greenmail ploy by seeking the support of the company's other major stockholders, depriving the foreign firms of shareholder support.

This was not the end of the matter, however. Minebea is persisting in its efforts to acquire Sankyo Seiki, while Trafalgar and Glen remain interested in the fast-growing Minebea. This became abundantly clear October 25 when the two partners made an unsolicited bid composed of cash, convertible debentures and U.S. government bonds totalling Y308 billion ($1.4 billion at Y220=$1.00), approximately four times the current market price per share, for all of Minebea's outstanding and reserved stock. The pair threatened to launch a hostile bid if the ball bearing maker refused the offer. Trafalgar scheduled a

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1983	1984	January-September 1984	January-September 1985	July 1985	August 1985	September 1985
Japan's Balance of Payments							
Trade Balance	$31,454	$44,257	$30,741	$38,193*	$5,414*	$4,380*	$5,269*
Exports (f.o.b.)	145,468	168,290	123,900	124,842*	15,120*	13,707*	14,612*
Imports (f.o.b.)	114,014	124,033	93,159	86,649*	9,706*	9,327*	9,343*
Current Account Balance	20,799	35,003	23,467	33,415*	4,958*	3,494*	4,883*
Long-Term Capital (net)	-17,700	-49,651	-32,543	-46,022*	-8,868*	-6,527*	-3,106*
Overall Balance	3,177	-15,200	-11,655	-9,085	-3,374	-1,881	504
International Reserves (end of period)	24,496	26,313	25,441	27,523	28,103	28,452	27,523
Japan's Customs Clearance Trade							
Trade Balance	20,534	33,611	22,273	30,322*	4,604	3,513	4,547*
Exports (f.o.b.)	146,928	170,114	125,253	126,188*	15,298	13,874	14,752*
Cars	19,535	21,899	16,431	17,845*	2,311	1,835	2,186*
Steel	12,843	13,852	10,085	10,024*	1,177	1,042	1,084*
Imports (c.i.f.)	126,393	136,503	102,981	95,867*	10,694	10,362	10,205*
Crude Oil	40,063	39,379	29,903	25,376*	2,511	2,497	2,602*
Japan-U.S. Trade							
Trade Balance	18,181	33,075	23,494	27,292*	-3,699	3,045	3,776*
Exports (f.o.b.)	42,829	59,937	43,706	46,813*	5,827	5,145	5,655*
Imports (c.i.f.)	24,648	26,862	20,212	19,521*	2,128	2,100	1,879*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y232.20	Y251.10	---	---	Y236.65	Y237.25	Y217.00
U.S.-Japan Trade							
Trade Balance	-19,289	-33,560	-25,905	-34,218	-3,573	-3,701	-4,526
Exports (f.a.s.)	21,894	23,575	17,417	17,064	1,845	1,743	1,926
Industrial Supplies	8,734	9,139	6,719	6,468	634	660	724
Food and Feed	5,555	5,929	4,578	3,773	508	457	501
Capital Goods	5,116	5,627	4,064	4,490	396	389	401
Consumer Goods	1,394	1,476	1,115	1,093	125	126	105
Imports (Customs)	41,183	57,135	43,322	51,282	5,418	5,444	6,452
Automotive Products	14,919	18,477	14,115	18,197	2,126	2,013	2,315
Capital Goods	11,896	19,290	14,577	16,314	1,669	1,650	2,027
Consumer Goods	8,296	11,266	8,466	10,346	976	1,139	1,340
Industrial Supplies	5,391	7,276	5,543	5,504	537	542	673

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1983	1984	January-August 1984	January-August 1985	June 1985	July 1985	August 1985
Discount Rate (end of period)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	7.4%	7.8%	7.8%	8.1%	8.2%	8.2%	8.3%
Industrial Production	3.6%	11.1%	11.6%	6.1%	4.8%	6.3%	4.1%
Manufacturing Operating Rate	1.6%	7.3%	8.9%	3.1%	0.6%	2.7%	1.4%
Number of Bankruptcies	11.9%	8.8%	14.3%	-8.9%	-6.3%	-5.2%	-11.8%
Residential Construction Starts	-0.8%	4.4%	4.4%	3.6%*	6.0%	-0.5%	-4.7%*
Job Openings to Applications (ratio)	0.60	0.65	0.64	0.69	0.70	0.68	0.68
Nominal Wages	3.5%	4.5%	4.4%	3.7%	2.0%	3.0%	8.0%
Labor Productivity	4.5%	9.9%	10.6%**	6.1%**	4.7%	n.a.	n.a.
Wholesale Prices	-2.2%	-0.3%	-0.6%	0.0%	-0.2%	-1.2%	-1.6%
Consumer Prices	1.9%	2.2%	2.2%	2.1%	2.5%	2.4%	2.3%
Yen-Based Export Prices	-6.0%	0.6%	-0.3%	2.0%	1.1%	-2.1%	-3.2%
Yen-Based Import Prices	-7.8%	-3.4%	-4.6%	1.1%	0.8%	-2.2%	-4.2%

*Preliminary

**Through June of each year only.

For Japan's most recent GNP figures, see JEI Report No. 38B, October 4, 1985.